

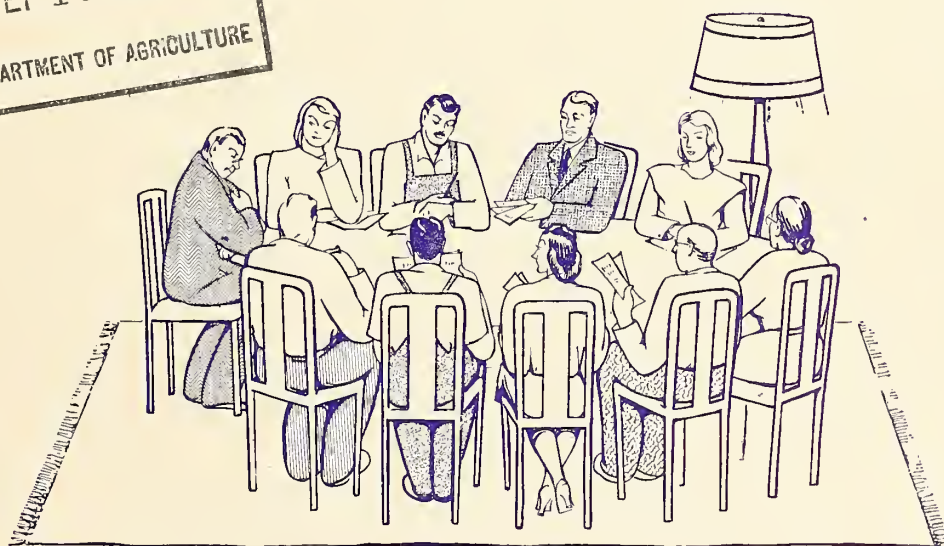
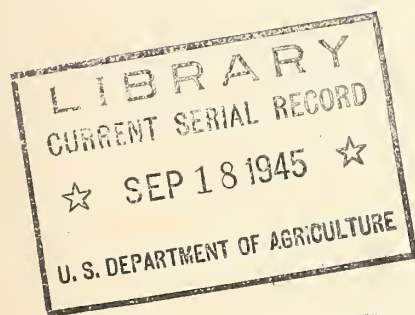
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# LET'S TALK ABOUT FARM LEASES and HOW THEY CAN BE IMPROVED

A Discussion Guide for Farm Groups  
From the United States Department of Agriculture



UNITED STATES DEPARTMENT OF AGRICULTURE, BUREAU OF AGRICULTURAL  
ECONOMICS, IN COOPERATION WITH THE  
EXTENSION SERVICE, 1945

## WHY DISCUSS THE FARM LEASE?

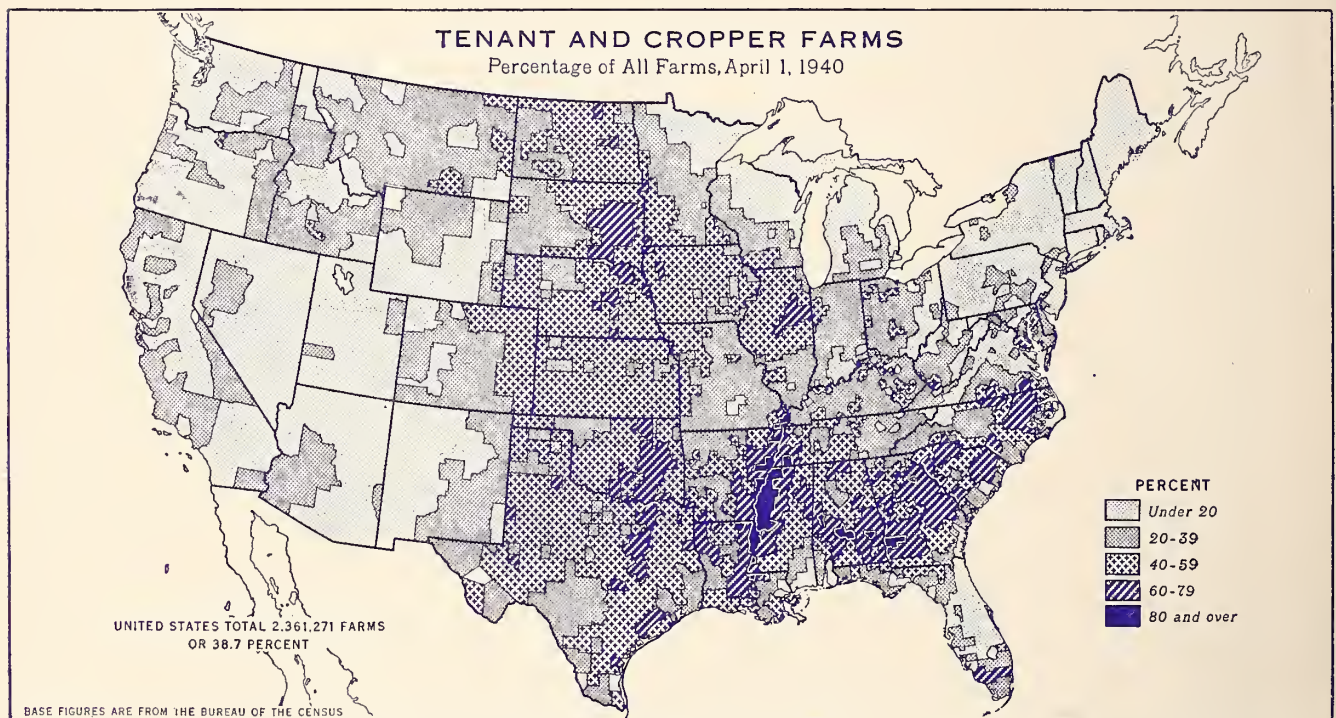
The war has brought about great changes in American agriculture. Shifting from war to peace will involve further adjustments. After the war, adoption of different farm enterprises and increased mechanization and use of fertilizer will affect the relations between landlords and tenants. Many veterans and war workers will want to farm after demobilization. Some of them, especially those who are inexperienced, may want to rent farms until they are in a position to buy. Many of the older farm operators who have carried on during the war will want to turn over their farms to younger men.

Besides the tenure problems created by adjusting agriculture from war to peace, there are other reasons why farm leases are so important. Almost half of the Nation's 6 million farmers rent some or all of the land they operate. So long as practically every other farmer in the Nation rents land, the influence of farm leases on American agri-

each year. These short-term agreements affect the welfare of both tenants and landlords. A man cannot do much planning for the future if he may have to move every year or two.

Far too many farm rental contracts or leases are merely oral agreements—are not set down in writing. The terms of such leases often are vague and incomplete, leaving many important items dependent upon the uncertainties of memory or later discussion. As a rule they fail to include enough inducements for the tenant to improve and develop the farm. The tenant has no assurance that he will be permitted to gain the full benefit of any improvements he may make, and the landlord's property is not adequately protected.

Community life also is affected by the attitudes of owners toward tenants and of tenants toward owners, and of each toward the use of the land. The longer the occupancy for which leases are drawn, the more stable the community, especially if many of its farms are operated by tenants.



culture cannot be overemphasized. Actually, the rights of each of these 3 million farmers in the business he operates depend to a large extent upon what sort of a lease he has.

Landlords, as well as tenants, are interested in good farm leases. Improved rental arrangements protect their farms and enable their tenants to be better farmers. A "fair" leasing agreement not only assures that tenants will take better care of rented land and improvements, but also enables them to earn larger incomes from the farms for themselves and their landlords.

The vast majority of farm leases are short-term—that is, they are drawn for only a year. Probably 2 million new lease agreements are made or old ones are renewed

It is too much to expect that desirable relationships can generally be established merely by improving the lease contract. But as the lease agreement is the basis of the relationship between landlord and tenant, a careful consideration of its provisions will have much to do with promoting harmony, mutual understanding, and good farming.

### What is the rental situation in our neighborhood?

Let us see what the picture is. *What area is included in our neighborhood? How many and what farms are rented? What proportion are rented? Is the number increasing or*



decreasing? Are these farms growing in size or are they becoming smaller? What percentage have written leases? What kind of rent do tenants pay?—Cash rent?—Share rent?—Or cash and share rent? Are there some father-son partnerships? Are the agreements for long or short terms?

Let's have two or three landlords and renters each tell just how he made his last lease agreement. What items in these agreements do you think are the most important? How do these points compare with the printed contracts you have? What other items do you think should be included in addition to the description of the property, the naming of the parties to the lease, the kind of rent, the amount, the length of rental period, and paying for upkeep of farm? What items as to garden, orchard, and poultry? Are soil-conservation practices enumerated? Is sharing of Government payments provided for? In your last lease, what omitted items did you find later should have been included?

## MAJOR CONSIDERATIONS IN MAKING A FARM LEASE

### What kind of rent should be paid?

There are two main points to keep in mind when deciding on the kind of rent to be paid. First, the kind of rent should fit the type of farming and the particular production situation of the farm. Second, the kind of rent should fit the financial circumstances of the two parties. Which of the kinds listed below is best suited to your farm?

Leases are of three main types—cash, standing-rent, and share-rent. Under the usual terms of the cash rental

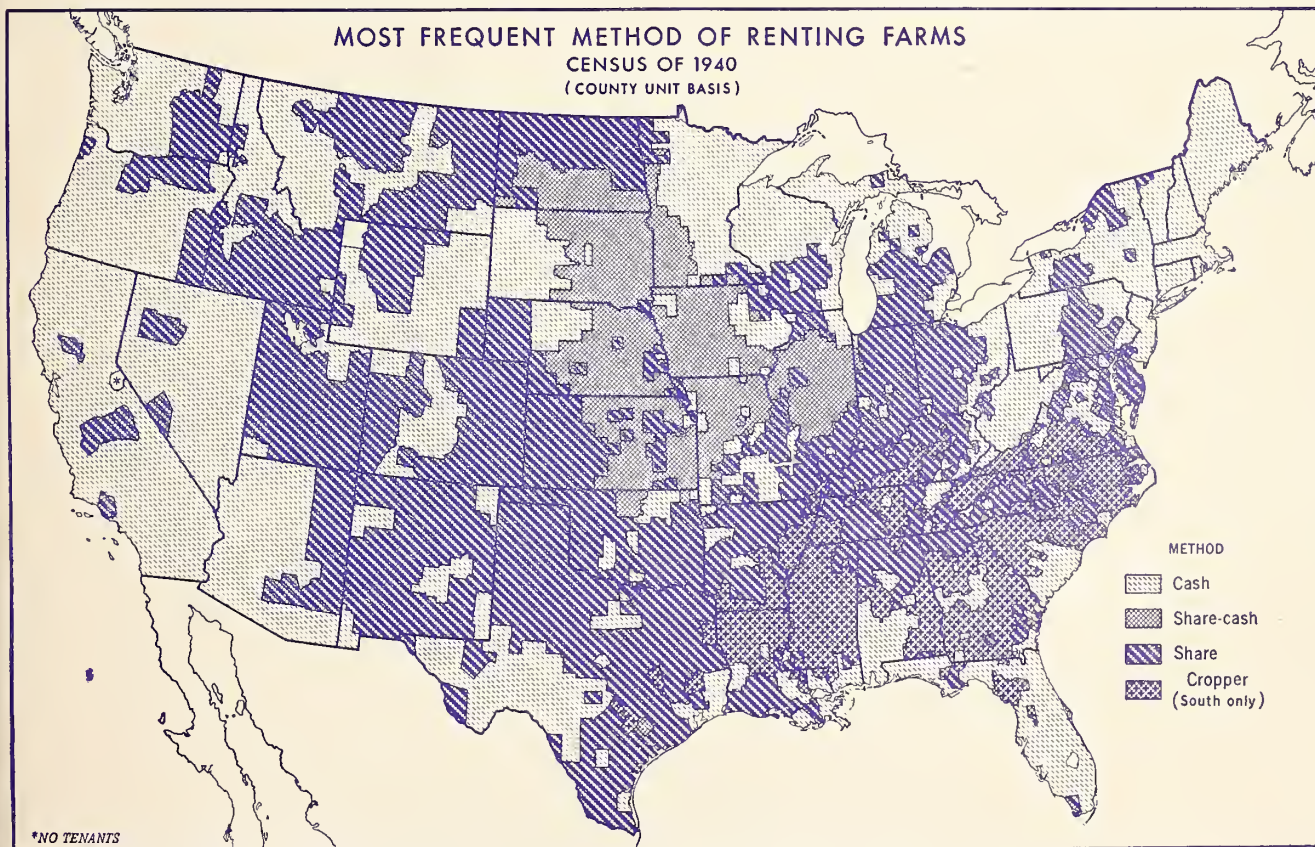
contract, the landlord furnishes the real estate. He also pays the taxes and the money costs of upkeep of buildings and fences. The tenant usually supplies all working capital. He pays all operating expenses such as feed, seed, and fertilizer. He also pays cash rent to the landlord. Whatever balance remains after these expenses have been met is the tenant's net income. Unless the cash lease contains a sliding-scale agreement, the tenant bears all the risk of changes in prices and production. Under the sliding-scale plan the landlord and tenant share equitably in the benefits of rising farm prices and, conversely, equity also prevails when the market falls to subnormal levels. In effect this plan provides a method by which cash rentals are based upon prices received by the tenant for his produce. Have sliding-scale agreements been used here? How have they worked?

Cash renting appeals to a landlord who cannot give much attention to the management of the farm, or who prefers a definite income, or who does not want to share in certain current operating expenses. Cash rent may be preferred by a tenant who has enough capital and experience to operate without assistance from the landlord, or who wants considerable independence in running the farm, or who does not wish to share with another the extra profits of good management.

Under the terms of a standing-rent contract the tenant agrees to give the landlord so many bales of ginned cotton, or pounds of tobacco, or bushels of grain. The landlord gets this quantity of product, no matter how large or how small the crop may be. It is evident that the cash value of such a rent varies with the rise and fall of farm prices.

### MOST FREQUENT METHOD OF RENTING FARMS

CENSUS OF 1940  
(COUNTY UNIT BASIS)



\*NO TENANTS



In *share renting* the landlord receives some of the crops and sometimes a part of the livestock. The amount of rent he receives is directly proportional to total production and prices for the year. When he operates on the share-rent basis, the landlord usually has more control over the farm than if the contract provides for a cash- or standing-rent type of lease.

Share-renting is frequently popular with tenants because landlords usually take more interest, give counsel and advice more freely, and provide more for maintenance of the farm than if it is rented for cash. Tenants who have accumulated only a little capital, or who may lack experience, or who are not prepared to bear all the risks of production frequently prefer share renting. *What are some of the other advantages of this kind of renting? What are some of the disadvantages?*

Cash tenants usually bear all the risks and operate rather independently of their landlords. But the landlord and tenant when operating under a *stock-share* rental agreement frequently share alike the ownership of all or part of the productive livestock as well as all expenses and income. The *crop-share* agreement is somewhere in between these two extremes. For example, the *crop-share* landlord assumes part of the risk of crop failure and fluctuations in prices of crops, but he assumes neither risk nor expenses in regard to livestock, if any is produced.

*Share-cash* agreements (a combination of cash and share contracts) are increasing. Under them the landlord and tenant share the more important crops, while the tenant pays cash rent for pasture, hay, and other specified items, and receives all the income from livestock.

*Father-son agreements* are gaining in popularity among landowners who want to turn over the operation of their farms to sons or sons-in-law. These agreements have developed to suit the needs and wishes of the two parties and range all the way from pure partnerships to employer-employee arrangements. Such agreements usually give the son a tangible interest in the farm. They are likely to be satisfactory when (a) the son and his wife want to farm, (b) the farm is large enough for two families, (c) harmonious, businesslike (not paternalistic) relationships can be established, and (d) separate dwellings for the two families are available.

*Which of these kinds of rent are paid in our community? Which form is the most common? What has been your experience with the different kinds? Which farms are more likely to be kept up—cash-rented farms or those rented on shares? Under which type of renting have tenants been best able to make adjustments to meet war conditions? Under which system will they be able to make the transition back to peace with least difficulty? Have you tried a father-son agreement? What do you think of it as a means for continuing the farm as a well-established family homestead?*

### How much rent should be paid?

This is the most difficult and the most important question to answer. Too often, rental rates are based upon community custom rather than upon (a) productivity of the farm and (b) contributions made by each party in the way of supplies, equipment, and services. The customary shares or cash rents may be satisfactory for the community as a whole but are likely to be out of line for many farms. If the rent charged is too high, the tenant is likely either to "skin the land" or to lower the level of family living in order to meet the rental

payments. When the rent is too low, the landlord fails to receive his proper share of the returns.

Whether the rent is cash-, or crop-, or livestock-share, custom is not generally a safe guide for determining the amount or proportion to be paid. Farms vary in productivity, and the landlord's and tenant's contributions in terms of farm investments and expenses differ greatly. As both parties contribute to the farm business, each should expect to receive a just return. By listing the items of investment and farm operating expenses and by assigning values to each, the relative importance of the contributions of each party can be fairly well estimated. On the basis of these contributions the division of income can then be calculated. For example, if the total contributions of the landlord—including land, improvements, and operating expenses—make up two-fifths of the total costs of running the farm business, then the gross farm income should be divided in such a way that about two-fifths would go to the landlord and three-fifths to the tenant. Deciding in this way the amount of rent to be paid should make it possible to organize and operate the farm more efficiently than if the rental is based on community custom.

The form below may be used in figuring what the respective shares put in by the owner and the tenant are worth. In the simplest types of leasing agreements many of the blanks on the form will naturally not be filled in. Although it is impossible to estimate accurately the value of contributions in any one year, such

### Method of Estimating Rent for All Types of Leases

Item	Estimated total value	Estimated interest rate	Estimated annual cost		
			Whole farm	Landlord's share	Tenant's share
	(A)	(B)	(C)	(D)	(E)
<b>INVESTMENT EXPENSES:</b>	<i>Dollars</i>	<i>Percent</i>	<i>Dollars</i>	<i>Dollars</i>	<i>Dollars</i>
1. Land and buildings					
2. Tractor and workstock					
3. Productive livestock					
4. Machinery and equipment					
5. Feed and supplies					
6. Other					
7. TOTAL INVESTMENT EXPENSE					
<b>CURRENT FARM EXPENSES:</b>					
8. Labor:					
a. Tenant					
b. Landlord					
c. Unpaid family					
d. Hired					
9. Repairs:					
a. Building					
b. Fence					
c. Machinery					
10. Depreciation:					
a. Buildings					
b. Fences					
c. Tractor and workstock					
d. Machinery					
11. Tractor fuel					
12. Machine work hired					
13. Veterinary charges, breeding fees, and other livestock expense					
14. Feed					
15. Seed					
16. Fertilizer and lime					
17. Other crop expense					
18. Insurance:					
a. Buildings					
b. Personal property					
19. Taxes:					
a. Land and buildings					
b. Personal property					
20. Miscellaneous (including cash rent)					
21. TOTAL CURRENT FARM EXPENSES					
22. TOTAL INVESTMENT AND CURRENT FARM EXPENSES (line 7 plus line 21)					



a test may serve as a means of approximating the fairness of the rental payment. The amount of rent the landlord should receive, or the income the tenant would get, it is assumed, would be roughly in proportion to what each has put into the farm business. *How do your results compare with the actual division you are now making of the products of the farm?*

## HOW TO FILL OUT THE FORM

### (Method of Estimating Rent)

1. Estimate the values of land and buildings for the farm, as called for in line 1, column A, according to your best judgment of the long-time earning capacity of the farm. Selling prices may reflect inflation in wartime as well as serious deflation during depressions. Therefore, the price for which the farm might sell is not satisfactory for use in calculating rental rates by this method.

2. The interest rates in column B, used in computing values for lines 1 to 6, columns C, D, and E, should be those that are currently available on loans for the different items listed.

For example, suppose the land and buildings are valued at \$20,000 (line 1, column A) and that the estimated interest rate for long-time mortgage loans on farms is 4 percent (line 1, column B); then the estimated annual costs would be \$800 [ $\$20,000 \text{ (value of land and buildings)} \times 0.04 \text{ (interest rate)} = \$800$ ]. The \$800 would then be entered in line 1, column C, and, since the landlord furnishes all the land and buildings, the \$800 should also be entered in line 1, column D. The remaining items of investment expense are figured in the same manner, and the estimated annual cost is divided between landlord and tenant according to the proportion contributed by each.

3. Under "Current farm expenses" fill in the actual annual costs for the cash items—such as hired labor (line 8d), repairs (lines 9a through c), etc.—paid by either the tenant or the landlord. In addition to these cash expenses there are certain items that may not involve cash outlays; nevertheless, they represent expenses and should be included in the form.

For instance, tenant's and landlord's labor (lines 8a and b), although not paid in cash, represents actual costs and should be included. The same is true for "Depreciation" (lines 10a through d). Your best estimate for the annual expense of these items should be entered in the proper column.

"Miscellaneous" (line 20) provides for entry of cash rent to be paid for pasture land, houses, or other items not furnished on a share basis.

4. After the various estimated investment and current farm expenses have been listed in the table, columns C, D, and E should be totaled. The division of farm income can then be estimated from the contributions shown in the table, line 22, columns D and E.

For example, suppose the estimated annual cost of "Total investment and current farm expense" (line 22) for the whole farm (column C) is \$3,000, and that the landlord's share of this expense (line 22, column D), is \$1,490 and that the tenant's share is \$1,510; then, since the landlord's expenses make up about one-half of the total for the farm, the gross farm income would be divided roughly in this same proportion: one-half to the landlord and one-half to the tenant. If

management and risk are shared equally by landlord and tenant a 50-50 basis for dividing gross farm income would be assumed to be satisfactory. For a cash-rented farm a further step is necessary. The gross income from the farm must be estimated. Thus a "fair" cash rent would bear about the same proportion to this gross income as the landlord's share of expenses bears to total farm expenses.

For any one year it is not possible to assign accurate values to all items in the table. However, this method will help landlords and tenants to arrive at a fair rent. Fill in the appropriate items of cost for your farm. *How does it "stack up"?*

You will note there is no place in the table to assign a value to two important items—"management" and "risk." These are difficult to evaluate in terms of dollars and cents, and the way in which they are shared between landlord and tenant varies widely. The cash-tenant with a herd of high-priced milk cows assumes much risk and might be entitled to a larger share of the returns than would be arrived at from this table. For any given type of farming, a crop-share lease puts more of the risk on the landlord than a cash lease. The quality of management possessed by tenants varies greatly, but, customarily, tenants who are good managers have the same share of returns as poor managers. Neither risk nor management should be ignored when the proper distribution of farming returns is determined, but they can best be handled as a matter of negotiation between individual landlords and tenants. After working through this table, farmers can determine what further adjustments should be made to allow for risk and management.

### What about the length of the lease?

In 1940 more than a third of the farm tenants of the country had operated for less than 2 years the farm on which they were living; and nearly two-thirds for less than 5 years. If, as Poor Richard said in his Almanac in 1758, "Three removes are as bad as a fire," many of these tenants and landlords must be suffering frequent losses because of the constant change from farm to farm.

Not all these changes are bad. Nor can they all be avoided. Farmers retire and their sons succeed them. Tenants retire, or find farms that are better suited to their needs, or purchase units of their own. Owners who have retired sometimes move back to their farms.

Frequent moving is not profitable to either landlord or tenant, nor does it permit progress in developing good farm practices. Many tenant farms are sorely understocked. A tenant who keeps livestock finds it much harder to locate another farm that suits him—with adequate barns and equipment—than one who grows only field crops. On the other hand, the landlord whose farm is developed for diversified farming may have trouble in finding a tenant who has adequate livestock and experience for running his farm.

A tenant who has no assurance that he can stay on the farm for more than a year or two will plan his farming in such a way as to get the largest possible cash return in the shortest time. He is not likely to be interested in soil-saving or soil-building practices, since he cannot see that he will benefit from them. Neither will he be so likely to keep up fences, repair the buildings, or keep the ditches and tile in good condition. It will be hard for him to build up his livestock or to plan satisfactory crop rotations.



It has been said that insecure tenant farmers do not have a reasonable opportunity to take part in the various economic, social, and political activities of the community. Studies show that moving in the middle of the school year causes many tenant children to fall behind in their school work, and it is evidently difficult to develop and maintain good schools and churches in many communities where tenancy predominates.

What can be done to bring about longer occupancy? Three things have been frequently recommended: (1) A long-term lease, drawn for at least 5 years, (2) a long-term lease that can be canceled for specific reasons by

## INSECURE TENURE



giving an adequate notice of termination, and (3) a lease that continues automatically from year to year unless notice of termination is given by either party well before the end of a year. Any of these things will promote stable occupancy and give the tenant a chance to do a good job of farming.

*Are long-term leases common in this community? Long-term cancelable leases? Automatically continuing leases? What has been our experience with them? Do our leases generally require advance notice of termination? How many months' advance notice should be required?—Four?—Six?—Or a year? Why? Have you noticed any difference in the way that tenants who have secure occupancy operate their farms as compared with those who move frequently?*

*How do short-term tenants fit into our community life? Do they take part in church, school, and social gatherings as much as do other farmers? If your farm is run by a tenant, does his lease permit him to stay long enough to become a part of the community? Is there any provision for giving the tenant an option on buying the farm? How can long-time leasing be attained in our community?*

### How can the tenant be encouraged to maintain the improvements and develop the farm?

Tenant farms are not usually kept up as well as owner-operated farms. Why is this? The answer is simple. Many landlords do not live on or near their farms and so do not take a personal interest in keeping them looking well. Others cannot afford to make the necessary improvements. Still others need every cent they can squeeze out of the farm. This is particularly true of numerous farm widows who depend upon the income from the land for their daily bread.

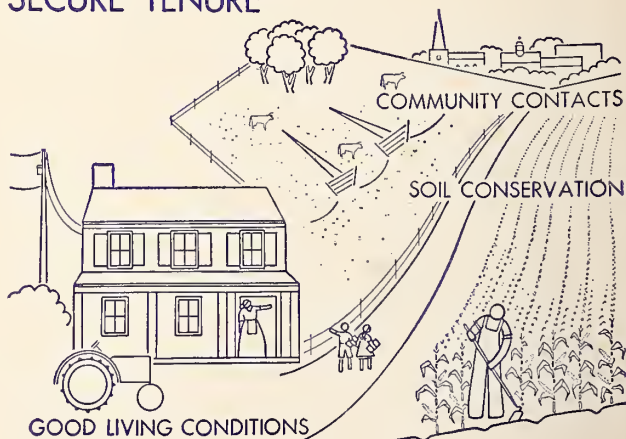
On the other hand, the typical short-term tenant is not interested in repairing and improving the place. It

is not his—it belongs to another. Also the tenant may not be sure how long he will stay on the farm. Another tenant may rent it out from under him if it is "spruced up" and looks inviting. Even if the tenant should add a gate or two, or a little paint, or a small building, or some fences, he may be required to leave them on the farm when he moves at the end of the year, or whenever the lease terminates, without receiving any compensation for the expense incurred.

Fences must be repaired and sometimes new ones must be built. Houses may need new paper or even new roofs. Perhaps a sink with drain should be put in the kitchen. More cribs for corn may be required, or shelter for livestock or poultry. Fields may need lime and fertilizer; perhaps new tile should be laid or ditches dug or cleaned out. Land may need to be cleared. Check dams and terraces may have to be constructed to prevent soil erosion. A good landlord and a capable tenant can figure out ways of doing these things. They may agree to do something that is not customary in the community. It would take a little effort but the reward would be great. A larger farm income, a more satisfied tenant, and a landlord proud of his farm are worth more than a little effort.

But how can these things be accomplished? One way is to show landlords that there is a close relation between well-maintained land and buildings and high returns from farming. Another way would be to write a provision in the lease that permits the tenant to take with him when he goes the improvements that he may have added to the farm. A third way would be for the landlord to agree to pay the tenant for the value of useful improvements added by him and left on the farm when the lease expires. Of course, if the landlord is really interested in maintaining and developing the farm, he will also agree not to increase the rent just because the tenant has made improvements.

## SECURE TENURE



*Who usually agrees to pay for the upkeep and improvement of tenant farms in our community? Is it customary for tenants to do more than make the least possible repairs for the current year? Do many farm leases have a provision for compensating tenants for any improvements they may make? Would such a provision make for better tenant farming? Would tenants be likely to take advantage of it? If such a plan is used, should a limit be put on the kind and value of improvement that tenants can make? How should the unexhausted value of these improvements be decided?*





U. S. D. A. Photography by Lee

An oral lease with no provision regarding improvements and upkeep may result in something like this.

### Should the lease be in writing?

Many details need consideration in a rental agreement. Although many tenants use oral agreements, putting the lease in writing is becoming more and more a common practice. Writing makes the provisions more definite and has many other advantages. In the first place, the landlord and tenant are likely to think carefully about all the details of the farm business and talk them over fully before writing them into a lease. Neither one will need to depend upon his memory. Many misunderstandings and irritations will be avoided. Together with previous agreements, a written lease will serve as a

partial history of farming operations—it will show previous crop rotations, liming, and fertilizing. In case of the death of either the landlord or the tenant, this lease will assure his heirs against misinterpretation of the agreement. If minor disputes should arise, they are easier to settle when the original agreement is in writing than when it is left to memory.

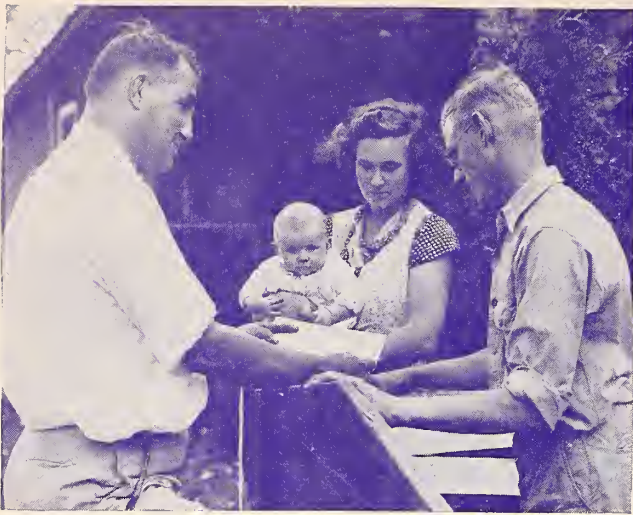
Writing out the lease makes it much easier to be sure that some important items are not overlooked or forgotten. This point can be illustrated by the experience of the tenant who said, "If, when I go to town, my wife sends for a loaf of bread, I usually remember to get it, but if she asks me to bring home a lot of different things,



U. S. D. A. Photography by Ackerman

A good farmstead, a good tenant, and a good lease make for good farming.





A written record is likely to prevent misunderstandings.

I have to make a written list, for unless I do I usually forget some of them."

*Are written leases commonly used in our community? What do you think of their advantages? Do you have any objections to the use of written agreements? What has been your experience with oral agreements? What can you do to get written leases used more widely in our community?*

### SUMMARY

A good farm lease, then, is a written lease—one that covers all items that are important to the particular situation. It will set forth clearly and completely the agreement between landlord and tenant. The kind of rent will be adapted to the type of farming to be followed and to the financial position of the two parties. It will call for a rental payment that is based on the productivity of the farm and the contributions of landlord and tenant rather than on community custom. It will promote stable and secure occupancy of the farm and make it possible for the tenant to become an active member of the community in which he lives. Finally, it may encourage the tenant to conserve and develop the farm if it provides him compensation for the value of unexhausted improvements when the lease ends.

*What have we learned about the rent contracts in our neighborhood? How can our leases be improved—as to kind?—As to the rent paid?—As to length of rental term? How are both tenant and owner encouraged to keep up the farm? How can we increase the number of written leases? What needs to be done to improve owner-tenant relations?*

*How can the rent contract be made to contribute to saving the soil and making the community a better place in which to live?*

## BACKGROUND MATERIALS

Ask your county agent for bulletins and circulars on farm leasing. *Better Farm Leases*, Farmers' Bulletin 1969, should be particularly helpful. Copies may be obtained from your county agent or direct from the United States Department of Agriculture, Office of Information, Washington 25, D. C.

### *To Make the Discussion Worth While*

**Getting Ready:** The sponsor or a member of the group should prepare a neighborhood map showing location of owner and tenant farms. Know, in general, how long each farm has been rented, how long by the present tenant, the type of rental, and where the owner lives. Get samples of standard printed lease forms and other material on renting from your county agent, your local Farm Security supervisor, your State agricultural college, or the United States Department of Agriculture. Farm papers or print shops may also have them.

Ask one of the neighborhood farmers to lead the discussion. Invite specialists to join the group but don't expect them to do all the talking. Make everyone comfortable. Place chairs in a circle.

The leader and members should study the guide in advance. The leader should prepare his own discussion plan, using questions that matter most locally.

*If you are the leader*, put questions to all or part of the group as a rule, not to individuals. Keep your own view out of it mainly. Aim at 100-percent participation. Sum up the discussion now and then, and at the close. Keep it on the track. You want it to get somewhere. On every question, get local experience and judgment into the open first. One or two specific situations might be analyzed and discussed. Draw on material in this guide whenever it is helpful. If you need another session to finish the job, plan one. Plan for action.

*If you are a member*, enter into the discussion freely. Tell your own experiences with farm leases. Speak briefly and to the point.

Be a good listener. Give others a chance. Everyone stay seated. Do not start little side conversations. Keep it one discussion.